Investor update

SAN FRANCISCO • 23 APRIL 2015
Important notice

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(Company number NZ 1830488, AU ARBN 160661183 NZX/ASX:XRO).

Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, purchase, or recommendation of securities in Xero Limited;

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- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance; and

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All information in this presentation is current at the date of this presentation, unless otherwise stated.

Financial results are unaudited. Audited financial results are due for release in May 2015.

All currency amounts are in NZ dollars unless otherwise stated.
Investor calendar

Annual results  
24th April*

Annual report  
21st May*

Annual meeting  
22nd July*

* Dates New Zealand time
2015: Building the platform to win

<table>
<thead>
<tr>
<th>Built capability</th>
<th>1,161</th>
<th>Product releases</th>
<th>500+</th>
<th>Customers</th>
<th>475,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>People. 403 into team Fy15</td>
<td></td>
<td>Completed horizontal platform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Team at scale after major focus recruiting and on-boarding top talent</td>
<td></td>
<td>Xero now meets the needs of the majority of small businesses</td>
<td></td>
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<tr>
<td>Established US leadership team</td>
<td></td>
<td>Payroll and inventory in all core markets</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Scaled out globally distributed product teams</td>
<td></td>
<td>Game changing practice reporting</td>
<td></td>
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<tr>
<td>Initiated global marketing and sales infrastructure</td>
<td></td>
<td>Added 214 people to the product team</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Capital in place for growth plans</td>
<td></td>
<td>Product cadence outpacing competitors</td>
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</tbody>
</table>

Expanded customers in all markets

- Building Operating Platform to support millions customers
- Exceptional execution of partner channel
- Building online capability to capture large and expanding TAM
**Delivering a superior experience**

<table>
<thead>
<tr>
<th>Recognised leader in first three markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive and trusted relationship with customers</td>
</tr>
<tr>
<td>Upptime</td>
</tr>
<tr>
<td>Best in class availability</td>
</tr>
<tr>
<td>Innovative support model- delivering high customer satisfaction</td>
</tr>
<tr>
<td>Industry leading resiliency</td>
</tr>
<tr>
<td>Ecosystem applications</td>
</tr>
<tr>
<td>20% attach rate across business editions</td>
</tr>
<tr>
<td>40% attach rate across premium editions</td>
</tr>
<tr>
<td>Over 20,000 registered developers</td>
</tr>
</tbody>
</table>

@Xero so many of my clients go with Xero because my other clients tell them how much they “Love” it!  
@AW_GRANT

Amazing support by Robert at the @Xero Colorado office. Xero support folks are caring, smart, and go the extra mile. Thanks!  
@VERTECONSULTING

@Xero Thanks! So nice to be dealing with actual caring, competent, human beings.  
@ASKHOLLYHOW
Delivered 80+% revenue growth

Subscription revenue
$121M
$67m for year ended 31 March 2014

YOY subscription revenue growth
81%
83% constant dollar

Annualised Committed Monthly Revenue
$159M
$93m as at 31 March 2014

Cash to invest
$269M
$210M as at 31 March 2014
Winning in a competitive environment

<table>
<thead>
<tr>
<th>Hybrid software tactics</th>
<th>Cloud platform effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood of brand and marketing spend</td>
<td>Beautiful cloud experience builds growth virally</td>
</tr>
<tr>
<td>Aggressive price discounting</td>
<td>Great experiences allow premium pricing</td>
</tr>
<tr>
<td>Acquisition of adjacent cloud products and customers</td>
<td>Open ecosystem + community wins against a single brand</td>
</tr>
<tr>
<td>Talk vision ahead of delivery</td>
<td>Empowered teams with no legacy products deliver faster</td>
</tr>
<tr>
<td>Treat customer service as a cost - even outsource</td>
<td>Superior customer experience drives adoption</td>
</tr>
</tbody>
</table>

**Cloud platform effect**

- Maintained premium pricing
- 15,000+ Banklink conversions in FY15
- +35% AU customers from incumbent software

More cloud accounting customers in AU, UK & NZ than four incumbents combined*

* Sage, Intuit, Reckon and MYOB public statements

424,000 Xero

<300,000 Incumbents
“Xero has helped us to just have a better handle on everything – to actually make decisions and move forward to grow”
@threebabesbake

“Find/Recode feature released today could quite possibly be the biggest time saver since the introduction of the bank feed”
@liveca_chad

“Recode in bulk @xero – This is huge. And it they REALLY built it right.
@DougSleeter
Winning global firms

Large firms thinking globally and using cloud to address high growth market

Partnerships
Deloitte Private Australia
KPMG UK
KPMG Singapore
Results
## Subscription revenue

<table>
<thead>
<tr>
<th>Region</th>
<th>12 months ending 31 Mar 15 $M</th>
<th>12 months ending 31 Mar 14 $M</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>32.6</td>
<td>23.2</td>
<td>41%</td>
</tr>
<tr>
<td>Australia</td>
<td>56.5</td>
<td>27.7</td>
<td>104%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>19.3</td>
<td>10.1</td>
<td>91%</td>
</tr>
<tr>
<td>North America</td>
<td>7.7</td>
<td>3.3</td>
<td>133%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>4.8</td>
<td>2.6</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120.9</strong></td>
<td><strong>66.9</strong></td>
<td><strong>81%</strong></td>
</tr>
</tbody>
</table>
Customers expanded

<table>
<thead>
<tr>
<th>Region</th>
<th>At 31 Mar 15</th>
<th>At 31 Mar 14</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEW ZEALAND</td>
<td>138,000</td>
<td>102,000</td>
<td>35%</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>203,000</td>
<td>109,000</td>
<td>86%</td>
</tr>
<tr>
<td>UNITED KINGDOM</td>
<td>83,000</td>
<td>47,000</td>
<td>77%</td>
</tr>
<tr>
<td>NORTH AMERICA</td>
<td>35,000</td>
<td>18,000</td>
<td>94%</td>
</tr>
<tr>
<td>REST OF WORLD</td>
<td>16,000</td>
<td>8,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>475,000</strong></td>
<td><strong>284,000</strong></td>
<td><strong>67%</strong></td>
</tr>
</tbody>
</table>
## Strong financial performance

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 March 2015 $M</th>
<th>Year ended 31 March 2014 $M</th>
<th>% FY2015 Operating revenue</th>
<th>% FY2014 Operating revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription revenue</td>
<td>120.9</td>
<td>66.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total operating revenue</td>
<td>123.9</td>
<td>70.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cost of revenues</td>
<td>37.4</td>
<td>24.5</td>
<td>30%</td>
<td>35%</td>
</tr>
<tr>
<td>Gross margin percentage</td>
<td>70%</td>
<td>65%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>93.5</td>
<td>55.1</td>
<td>75%</td>
<td>79%</td>
</tr>
<tr>
<td>Product and design</td>
<td>49.0</td>
<td>18.4</td>
<td>40%</td>
<td>26%</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>24.5</td>
<td>11.7</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Net loss after tax</td>
<td>69.5</td>
<td>35.5</td>
<td>56%</td>
<td>51%</td>
</tr>
</tbody>
</table>
Strong financial performance

<table>
<thead>
<tr>
<th>Metric</th>
<th>Expectation at commencement of FY2015</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscription rev growth</td>
<td>“Xero expects strong revenue growth to continue for the foreseeable future.”</td>
<td>FY2015 $120.9M YoY 81%</td>
</tr>
<tr>
<td>Funding</td>
<td>“Maintain strong cash position for growth agenda”</td>
<td>FY2015 $269M Movement +28%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>“We expect cost of revenues to continue to reduce as a percentage of operating revenue, thereby increasing the gross margin.”</td>
<td>FY2015 70% Movement +5%</td>
</tr>
<tr>
<td>Sales and Marketing</td>
<td>“costs will increase in absolute dollar terms as investment toward growing global market share continues, however we expect to see a significant reduction in “months to recover CAC” and in sales and marketing costs as a percentage of operating revenue”</td>
<td>FY2015 75% Movement -4%</td>
</tr>
<tr>
<td>Product</td>
<td>“Product design and development costs will increase in absolute dollar terms and are expected to increase as a percentage of operating revenue”</td>
<td>FY2015 40% Movement +14%</td>
</tr>
</tbody>
</table>
Investment in people

403 staff hired in the past 12 months

- 214 Product
  - 86% growth in FY2015
- 29 General & admin
- 26 Business support
- 35 Cost to serve
- 99 Sales & marketing

GLOBAL STAFF*

<table>
<thead>
<tr>
<th>Country</th>
<th>Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ</td>
<td>658</td>
</tr>
<tr>
<td>AU</td>
<td>185</td>
</tr>
<tr>
<td>UK</td>
<td>104</td>
</tr>
<tr>
<td>US</td>
<td>214**</td>
</tr>
</tbody>
</table>

Total 1,161

* Total staff in each country
** US GTM team 64 staff

86% growth in FY2015
### FY2015

<table>
<thead>
<tr>
<th></th>
<th>NZ</th>
<th>AU</th>
<th>UK</th>
<th>NA</th>
<th>ROW</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$23.90</td>
<td>$30.50</td>
<td>$26.00</td>
<td>$29.70</td>
<td>$37.50</td>
<td>$28.00</td>
</tr>
<tr>
<td>CAC months</td>
<td>7.8</td>
<td>8.7</td>
<td>16.7</td>
<td>42.5</td>
<td>2.9</td>
<td>13.5</td>
</tr>
<tr>
<td>Customer Churn</td>
<td>0.9%</td>
<td>1.1%</td>
<td>1.3%</td>
<td>3.1%</td>
<td>2.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Life time value (LTV)</td>
<td>$1,818</td>
<td>$2,008</td>
<td>$1,418</td>
<td>$662</td>
<td>$1,387</td>
<td>$1,622</td>
</tr>
<tr>
<td>Life time value / CAC*</td>
<td>9.8</td>
<td>7.6</td>
<td>3.3</td>
<td>0.5</td>
<td>12.6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

### FY2014

<table>
<thead>
<tr>
<th></th>
<th>NZ</th>
<th>AU</th>
<th>UK</th>
<th>NA</th>
<th>ROW</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$23.40</td>
<td>$31.00</td>
<td>$25.20</td>
<td>$28.70</td>
<td>$35.40</td>
<td>$27.30</td>
</tr>
<tr>
<td>CAC months</td>
<td>5.3</td>
<td>9.1</td>
<td>9.6</td>
<td>42.3</td>
<td>3.1</td>
<td>11.8</td>
</tr>
<tr>
<td>Customer Churn</td>
<td>1.2%</td>
<td>1.5%</td>
<td>1.4%</td>
<td>5.0%</td>
<td>2.2%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Life time value (LTV)</td>
<td>$1,303</td>
<td>$1,332</td>
<td>$1,142</td>
<td>$385</td>
<td>$1,043</td>
<td>$1,133</td>
</tr>
<tr>
<td>Life time value / CAC*</td>
<td>10.6</td>
<td>4.7</td>
<td>4.7</td>
<td>0.3</td>
<td>9.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

* Lifetime value/CAC is the ratio between the gross margin derived over the life of a customer and the cost to acquire that customer
CAC months for the Group increased from 11.8 to 13.5 months due to the ongoing focus to accelerate growth through sales and marketing activities. Excluding North America, CAC months for the Group were 9.9 (8.2 in FY14) representing an efficient sales model. Improved churn has driven higher LTV and LTV to CAC ratio.

New Zealand

CAC months increased due to investment activities undertaken to further develop future revenue streams via connections to Enterprise and Government. This has led to a lower LTV to CAC ratio despite an improvement in churn.

Australia

Local currency ARPU increased due to strength in the online channel but decreased in NZD due a weakened AUD. CAC months decreased reflecting efficiency gains during the period. This along with improved churn has driven higher LTV and LTV to CAC ratio.

United Kingdom

CAC months increased due to growth in the sales and marketing team during the period. This growth reflects the market size and stage with Xero continuing to solidify its leadership position. As a result, the LTV to CAC ratio reduced despite a slight improvement in churn.

North America

Metrics such as CAC months are currently not considered relevant in this market given its very early stage and with Xero continuing to invest to build the platform for future growth. A significant improvement in churn during the period resulted in the increase in LTV and LTV to CAC ratio.
New Zealand

Leading accounting software provider
Payroll launched to increase ARPU in FY2016
Launched cloud farming solution increased farming segment ACMR by over 100%
Improving reporting in practice tools accelerating partner channel growth

Business platform test lab:
- Banking 2.0
- NZ Business Number
- Enterprise EDI
- Business to Government

CUSTOMERS
138,000
31% share*

SUB REVENUE
$33M
ACMR $40M

$70B
TRANSACTIONS PROCESSED THROUGH THE PLATFORM**

CUSTOMERS BY CHANNEL
- 80% Partners
- 20% Online

* Based on estimated market size of 450,000 customers
**processed during CY2014
Australia

Leading cloud accounting solution
Ranked #1 most innovative company**
Leading branded search in category
  Over 8,000 accounting and bookkeeping partners
  ‘Big 4’ bank API partnership
800+ accounting firms adopted Xero practice management
Leveraging strategic partnerships: Telstra, Google and Shopify

CUSTOMERS
203,000
10% share*

$114B
TRANSACTIONS PROCESSED THROUGH THE PLATFORM**

SUB REVENUE
$57M
ACMR $74M

CUSTOMERS BY CHANNEL
75% Partners
25% Online

* Based on estimated market size of 2,000,000
**processed during CY2014
Leading cloud accounting solution
Increased team from 57 to 104 to drive growth
Partnerships with: RBS, Natwest, Santander and Metrobank
Building senior leadership team
Increasing momentum following UK Xerocon
1,500 accountants and bookkeepers on current ‘Evolve’ 9 city roadshow
Delivery of payroll in April unlocking market

CUSTOMERS
83,000
2% share*

SUB REVENUE
$19M

ACMR
$26M

CUSTOMERS BY CHANNEL
72% Partners
28% Online

* Based on estimated market size of 4,300,000
North America

Product fit addressed
300% YoY increase in online leads in last quarter
H2 delivered a 300% increase on H1 net new customers
Focus on building online direct model to address massive TAM
Strong progress with strategic partnerships and banking
US go-to-market team is 64

CUSTOMERS
35,000
<1% share*

SUB REVENUE
$8M
ACMR $12M

XERO CUSTOMER GROWTH TREND

US
Other markets

Time since entered market

CUSTOMERS BY CHANNEL

53% Partners
47% Online

* Based on estimated market size of 29,000,000
US progress

Actions

- US leadership in place
- Growing digital and channel engagement
- Full solution with accounting, invoicing, payroll in 7 states, and inventory
- Increased solutions via integration with ecosystem partners

US executive focus

- Investment in bookkeeping and accounting channel
- Establish high velocity automated sales and marketing engine
- Continue to build marketing and PR momentum
- Invest in mobile and viral features
- Key strategic and ecosystem partnerships
- Create new US specific solutions
Leading growth

CAGR (Subscription Revenue 110%, ACMR 91%)

CUSTOMERS

ACMR

SUBSCRIPTION REVENUE

2010 17k
2011 36k
2012 81k
2013 157k
2014 284k
2015 475k

$6 $12 $25 $36 $67 $93 $121 $159

$8 $18 $36 $52 $67 $93

2010 2011 2012 2013 2014 2015
At the beginning of platform evolution

- 2007: Accounting features
- TODAY: Integrated accounting & payroll
- 2015+: Small Business platform
- 2015+: Big data for Small Business
- 2015+: The Financial Web

Rapid platform development beyond accounting
Incredibly well positioned

Xero’s around the world all on a mission to win

- First global accounting solution people love
- Massive and expanding TAM, significant new revenue opportunities
- First global small business cloud accounting platform
- Global strategy and proven execution
Q&A
Beautiful accounting software